

**Congresswoman Madeleine Z. Bordallo**  
**Statement to the House Committee on the Budget**  
**Comments on the President's Fiscal Year 2007 Budget Request**  
**Tuesday, February 14, 2006**

Chairman Nussle and Ranking Member Spratt:

Thank you for the opportunity to testify before the House Committee on the Budget on the Administration's budget proposal for Fiscal Year 2007 and Guam's budget priorities for the upcoming year. My testimony today will highlight the need to relieve the treasuries of Guam and the U.S. Virgin Islands from solely bearing the cost incurred as result of the Earned Income Tax Credit (EITC). Also, I will discuss the importance of increased funding for public school education. Further, I discuss the need for certain changes to how Medicare and Medicaid are applied to Guam and the other territories. Moreover, I urge the Committee's support for the Administration's military construction budget proposal. Finally, I express my concern about troubling cuts to programs administered by the Small Business Administration (SBA). Although Guam is a great distance from Washington, D.C., my testimony will reveal that the challenges before the island are identical to those facing the 50 states, American families and businesses in every community across the country.

I will begin by noting that this is the third consecutive year that the Committee will hear testimony from me regarding the issue of the EITC. This issue is also important for residents of the Virgin Islands.

Guam and the Virgin Islands tax codes mirror that of the United States, as I have stated in my previous years' testimony. As such, Guam and the Virgin Islands must provide their residents with the same tax credits that are available to individuals in the 50 states and in the District of Columbia. However, the payments of "refundable" tax credits such as the EITC constitute an unfunded federal mandate for territorial treasuries. The "refundable" portion of the EITC equals the amount paid in excess of the taxpayer's total tax liability, as adjusted per recent changes in the U.S. tax code. This refund is aimed at offsetting some of the FICA tax burden experienced by low-income individuals.

Taxpayers on Guam and in the Virgin Islands pay FICA taxes to the U.S. Treasury as do citizens in the 50 states and in the District of Columbia. The U.S. Treasury covers the amounts in EITC owed to eligible taxpayers in the 50 states and in the District of Columbia. Funds from the U.S. Treasury, however, do not cover EITC payments to eligible taxpayers on Guam or in the Virgin Islands. Instead, the responsibility for making EITC payments to eligible taxpayers in Guam or in the Virgin Islands is shouldered by the territorial treasury. So, in essence, the territorial treasuries of Guam and the Virgin Islands are obligated to refund to taxpayers for the EITC despite the fact that the territorial treasuries do not collect FICA taxes. This is unfair and should be corrected. The intent of the EITC should be fully applied in Guam and in the Virgin Islands. The territorial treasuries cannot financially sustain these federal tax obligations without undue impact to their budgets.

As I testified last year, Congresswoman Donna Christensen of the Virgin Islands and I have proposed various solutions to this problem over the years. Senate Finance Chairman Charles Grassley and House Ways and Means Committee Chairman William Thomas have engaged in colloquies with us expressing their willingness to assist with this issue. I recently asked the Joint Committee on Taxation to score our recent legislative proposal on this matter. It is my hope that this issue can be resolved in the coming year. Including funding for this issue in the Fiscal Year 2007 budget will go far toward providing significant relief for the Guam and Virgin Island treasuries while maintaining the availability of an important tax credit for hardworking American families.

The importance of improving the quality of education that our children receive in our country's public schools remains a priority. Guam is a neighbor to some of the most innovative and competitive countries in Asia. They are countries that are home to hardworking, industrious, and innovative students. Today, some students from those countries are out-performing American students in crucial subjects like math and science. As a result, young professionals from Asia will excel in the engineering, advanced technology, and programming fields in the future. These fields are key drivers for economic growth and technological innovation. The U.S. must not fall further behind. The U.S. must maintain its prominent position in the technical fields.

Hard work, industry, and innovation are commonplace among American students. But academic excellence is, unfortunately, not uniform throughout the country. Some rural, poor, or isolated communities do not have the revenue base with which to attract high quality, professional teachers, purchase modern lab equipment, computers, and software, or provide continued professional training for education professionals. As a result American students suffer by receiving a lower quality education. I share the Administration's commitment to improve the quality of public education nationwide, to instill standards for performance in the classroom, and to provide brighter futures for the next generation of Americans. The next generation's desire to become competitive and to succeed in the modern economy and in the workplace of the future is an inspiration for us in Congress.

That is why I urge that the Committee ensure that the budget resolution include sufficient headroom for 'No Child Left Behind' initiatives and funding increases in order to ensure that improvements can be made in public school education. Many accomplishments can be credited to this ambitious program. However, it has fallen way short of achieving maximum impact toward improving the education offered by public schools nationwide, especially those in rural, poor, or isolated areas. I am encouraged by the Administration's recent emphasis on improving science and math education in our public schools. Improved math and science skills, along with improved language skills, will go far in preparing our children for the challenging jobs they will have to compete for in the future.

However, I remain concerned that the Administration would eliminate programs such as the Teacher Quality Enhancement grant program. The benefits yielded by an increase of funding for the development of academic curriculum or the improvement of science facilities will be lost if corresponding investments for teacher professional development are not continued. This is particularly the case for teachers in rural, poor, or in isolated areas. They too often do not receive the professional development opportunities that they deserve and require. I urge the Committee to ensure that education investments for Fiscal Year 2007 include adequate investment in teacher professional development like the Teacher Quality Enhancement grant program and similar programs.

I also urge that the Fiscal Year 2007 budget allow for fully funding of the provisions and programs contained in the Individuals with Disabilities Education Act Improvement Act (IDEA) (P.L. 108-446) which was a major reauthorization of the original IDEA (P.L. 94-142). This Act is the primary Federal vehicle for ensuring that individuals with disabilities receive the same educational opportunities as those without disabilities. Investment in the continued professional development of teachers who specialize in educating students with disabilities is essential. Maximum grant funding states and territories can receive to support the education of students with disabilities should be made available. Also, funding for states and territories to ensure compliance with IDEA provisions is important. However, it remains essential that compliance funding be balanced with funding for monitoring student progress.

As increased funding for education programs ensures that Guam's next generation will have an improved quality of life, certain improvements are needed to Medicare and Medicaid to ensure that Guam's elderly and most in need can have more equitable and better access to the medical services they require today. The Deficit Reduction Act of 2005 (P.L. 109-171) increased ceilings placed on Federal funding for the Medicaid programs for Guam and the other territories. The ceiling on Medicaid funding for the territories prior to P.L. 109-171 created an unfortunate and intentional gap between the percentages of Federal funding the territories receive vis-à-vis how Medicaid assistance for the states is funded. P.L. 109-171 closes that gap for Guam for the time being. However, the Medicaid funding ceilings remain present in law, despite the adjustments in funding made by P.L. 109-171. I urge the Committee to permanently remove the Medicaid ceilings for the territories.

The current Federal Medical Assistance Percentage (FMAP) is the next obstacle preventing the receipt of equitable and better treatment under Medicaid for the territories. A report released by the Government Accountability Office (GAO) last year concludes that "Federal Medicaid funding in the insular areas – particularly the minimum Federal matching contribution and funding cap – contribute to Federal Medicaid spending per capita levels in the insular areas that are significantly lower than in the states." As you know, the FMAP is the share of state Medicaid benefit costs paid for by the Federal Government. It is calculated for the states based on a three-year average of state per capita personal income compared to the national average; however, the FMAP for the territories is statutorily set at 50 percent and this formula does not apply the territories. In

reality, the territories are restricted twice under Medicaid: first by the funding ceiling, and second by the statutorily-set FMAP. I urge the Committee to address the Medicare and Medicaid funding disparities identified by the GAO in its October 2005 report entitled “U.S. Insular Areas: Multiple Factors Affect Federal Health Care Funding” (GAO-06-75). I urge the Committee to propose an elimination of the FMAP for the territories, so that each territory can fully access Federal Medicaid funding that will be available to them in future years as a result of P.L. 109-171.

Department of Defense (DOD) spending in Guam is a prime economic driver for the island in addition to the visitor service and hospitality industries. Guam remains a strategic asset to our national security. The Administration’s Fiscal Year 2007 budget request includes increased spending for infrastructure development on Guam and within the two military bases on the island – Naval Base Guam and Andersen Air Force Base. Moreover, the Administration’s budget request reflects DOD’s recent decision to relocate the III Marine Expeditionary Force (III MEF) Headquarters from Okinawa, Japan to Guam. As you know, elements of the III MEF liberated Guam from Imperial Japanese occupation in 1944. Guam welcomes the Marines back to the island. Guam is honored to be their home. The planned increase in Federal spending to support the military build-up on Guam promises to create new jobs for Guam’s economy and provide opportunities to strengthen and diversify Guam’s private sector. I urge the Committee to support the Administration’s request for military construction spending.

The Administration has undertaken a realignment of U.S. Army assets. The budget reflects initial increased investment in the Army National Guard and Reserve, both to restock equipment utilized and damaged in combat and to initiate a new era of the *full* equipping of the reserve force. I strongly support the Army’s endeavor toward creating a Total Force by fully equipping the reserve component, and I urge the Committee to support funding requirements for the Guard and Reserve.

The demand for a skilled and trained workforce on Guam has never been greater. A jobs training program is integral to creating a skilled workforce to meet the demands associated with increased DOD investment in Guam. Full support for job training, education and assistance programs is especially important during this time of growth for Guam. I recommend that the Committee ensure that the U.S. Department of Labor is budgeted sufficiently to allow for the extension of workforce investment programs to Guam. I look forward to the day when the Department of Labor opens a Job Corps center on Guam.

Our nation’s veterans continue to deserve the support of the Administration, Congress, and the American people. Veterans’ benefits programs deserve full funding in Fiscal Year 2007. Specifically for Guam, I urge that the Veterans Benefits Office and the Veterans Clinic be fully funded so as to provide Guam’s heroes the services and care they require. I also urge that the planned construction of a new Veterans Clinic on Guam be executed with full budget support during Fiscal Year 2007.

In closing I want to express my concerns regarding the Administration's proposed cuts to the Small Business Administration (SBA). For the third year in a row, the Administration's budget request eliminates the Microloan Program, which in Fiscal Year 2006 will provide \$20.5 million in loans and \$13 million in technical assistance to small businesses nationwide. Also, for the third year in a row the Administration has increased fees on the 7(a) program – SBA's largest financing initiative. These fees are now at their maximum level. New this year is an across the board set of fees for SBA's lending programs. I am concerned that this will make these programs more expensive and less accessible to small businesses and lenders. Also of concern are the Administration's proposed cuts to popular entrepreneurial and economic development programs – such as the Small Business Development Centers (SBDC) and the Women's Business Centers (WBC). On top of these reductions is the entire proposed elimination of the Small Business Innovation Research (SBIR) Rural Outreach Program, the SBIR Fast Program, BusinessLINC, PRIME and the New Markets Venture Capital (NMVC) Program – all of which have successfully served targeted sectors of the small business community. I urge the Committee to ensure the budget resolution reflects a continued commitment to the success of America's small businesses.

I appreciate the opportunity to submit this testimony for the record. A Federal cover-over for EITC refunds for Guam and the Virgin Islands, continued funding for education programs – including the continued investment in teacher professional development, continued investment in healthcare and workforce development programs, support for the Administration's military construction budget request and Total Force commitment, and ensuring that Federal assistance for programs aimed to grow and strengthen small businesses are important to Guam. Thank you for your consideration of my testimony.